

# Directors' Report

The directors present their annual report and the audited financial statements of the Company for the year ended 31st March, 2002.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its subsidiaries are set out in note 42 to the financial statements. Details of the discontinued operations are disclosed in note 9 to the financial statements.

## RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 18.

No dividend was paid during the year.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 27 to the financial statements.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

## INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31st March, 2002 as set out in note 12 to the financial statements. The deficit arising on revaluation amounting to HK\$2,500,000 has been charged to the consolidated income statement.

## PROPERTY, PLANT AND EQUIPMENT

During the year, certain of the Group's leasehold land and buildings with a net book value of approximately HK\$5.6 million were disposed of. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

## PROPERTIES UNDER DEVELOPMENT

Details of the properties under development of the Group are set out in note 14 to the financial statements.



# Directors' Report

## PRINCIPAL PROPERTIES

Particulars of the Group's principal properties as at 31st March, 2002 are set out on pages 72 and 73.

## DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

Mr. Tse Cho Tseung (Chairman)	(appointed on 29th October, 2001)
Mr. Tam Cheuk Ho (Deputy Chairman)	(appointed on 15th May, 2002)
Mr. Li Yun Hoi (Managing Director)	(appointed on 29th October, 2001)
Mr. Cheng Chak Hung, Ian	(resigned on 15th May, 2002)
Mr. Leung Kwong Choi, James	(resigned on 15th March, 2002)
Mr. Wong Chun Hong	(resigned on 29th October, 2001)
Mr. Hui Kwok Wai	(resigned on 29th October, 2001)
Mr. Lee Sai Kai, David	(resigned on 29th September, 2001)

### Independent non-executive directors:

Mr. Ho Kin Cheong, Kelvin	(appointed on 29th October, 2001)
Mr. Kwok Ka Lap, Alva	(appointed on 29th October, 2001)
Mr. Cui Shuming	(resigned on 6th December, 2001)
Mr. Wong Yuen	(resigned on 29th October, 2001)

### Other non-executive directors:

Mr. Liu Ren Shung	(vacated on 12th June, 2002)
Mr. Ho Chit Hung, Thomas	(resigned on 1st November, 2001)

In accordance with Clause 86(2) of the Company's Bye-laws, Messrs. Tse Cho Tseung, Tam Cheuk Ho, Li Yun Hoi, Ho Kin Cheong, Kelvin and Kwok Ka Lap, Alva who were appointed during the period from the last annual general meeting to the date of this report will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office for each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

# Directors' Report

## DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2002, the interests of the directors of the Company and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

### (a) Shares in the Company

At 31st March, 2002, the following directors had interests in the issued share capital of the Company:

	<u>Personal interests</u>	<u>Corporate interests</u>
Mr. Tse Cho Tseung	–	552,063,921 <i>(Note)</i>
Mr. Cheng Chak Hung, Ian	1,240,000	–

*Note:*

These shares are beneficially owned by Lunghin Enterprise Inc. ("Lunghin"), a company incorporated in the British Virgin Islands whose entire issued share capital is beneficially owned by Mr. Tse Cho Tseung.

### (b) Shares in subsidiaries

At 31st March, 2002, the following director had interests in the issued share capital of a subsidiary of the Company:

*Non-voting deferred shares:*

<u>Name of director</u>	<u>Name of subsidiary</u>	<u>Nature of interest</u>	<u>Number of shares held</u>
Mr. Cheng Chak Hung, Ian	King-Tech Engineering Company Limited	Personal	700,000

Save as disclosed above, none of the directors of the Company or any of their associates had any interests in any securities of the Company or any of its subsidiaries or associated corporations within the meaning of the SDI Ordinance as recorded in the register kept by the Company under section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").



## SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted on 28th February, 1994 for the primary purpose of providing incentives to directors and eligible employees and will expire on 27th February, 2004. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 14 days from the date of grant.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the Company's shares, and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

At 31st March, 2002, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 43,169,000, representing 2.2% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

No option may be granted to any one person which if exercised in full would result in the total number of shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of shares issued and issuable under all the options which may be granted under the Scheme at the time it is proposed to grant the said option to that person.

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is granted and prior to the expiry of ten years from that date, provided that, in the five years from the date of grant, the exercise of the option shall be restricted to a cumulative total of 20% of the entitlement to the option in each year. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme. Subject to earlier termination by the Company in general meeting or by the Board of Directors, the Scheme shall be valid and effective for a period of 10 years after the date of adoption of the Scheme by shareholders of the Company by resolution at a general meeting.

# Directors' Report

## SHARE OPTIONS (Cont'd)

The following table discloses movements in the Company's share options during the year:

	Date of grant	Exercise price <i>HK\$</i>	Number of share options of the Company			
			Outstanding at 1.4.2001	Exercised during the year	Cancelled during the year	Outstanding at 31.3.2002
Category 1: Directors						
Mr. Wong Chun Hong *	30.4.1997	0.792	17,700,000	–	(17,700,000)	–
	19.6.1997	1.092	3,600,000	–	(3,600,000)	–
	25.11.1998	0.105	12,000,000	–	(12,000,000)	–
	20.12.1999	0.128	500,000	–	(500,000)	–
	14.3.2000	0.330	6,200,000	–	(6,200,000)	–
	26.8.2000	0.191	6,952,500	–	(6,952,500)	–
Mr. Hui Kwok Wai*	30.4.1997	0.792	7,440,000	–	(7,440,000)	–
	19.6.1997	1.092	2,400,000	–	(2,400,000)	–
	25.11.1998	0.105	10,000,000	–	(10,000,000)	–
	20.12.1999	0.128	3,000,000	–	(3,000,000)	–
	14.3.2000	0.330	6,200,000	–	(6,200,000)	–
	26.8.2000	0.191	10,352,500	–	(10,352,500)	–
Mr. Cheng Chak Hung, Ian*	30.4.1997	0.792	3,360,000	–	–	<b>3,360,000</b>
	19.6.1997	1.092	480,000	–	–	<b>480,000</b>
	25.11.1998	0.105	1,320,000	–	–	<b>1,320,000</b>
	20.12.1999	0.128	1,440,000	–	–	<b>1,440,000</b>
	14.3.2000	0.330	1,200,000	–	–	<b>1,200,000</b>
	26.8.2000	0.191	1,000,000	–	–	<b>1,000,000</b>
Mr. Leung Kwong Choi, James*	30.4.1997	0.792	3,360,000	–	–	<b>3,360,000</b>
	19.6.1997	1.092	480,000	–	–	<b>480,000</b>
	25.11.1998	0.105	1,320,000	–	–	<b>1,320,000</b>
	20.12.1999	0.128	1,440,000	–	–	<b>1,440,000</b>
	14.3.2000	0.330	1,200,000	–	–	<b>1,200,000</b>
	26.8.2000	0.191	1,000,000	–	–	<b>1,000,000</b>



# Directors' Report

## SHARE OPTIONS (Cont'd)

The following table discloses movements in the Company's share options during the year: (Cont'd)

	Date of grant	Exercise price HK\$	Number of share options of the Company			
			Outstanding at 1.4.2001	Exercised during the year	Cancelled during the year	Outstanding at 31.3.2002
Mr. Lee Sai Kai, David*	30.4.1997	0.792	3,360,000	–	–	<b>3,360,000</b>
	19.6.1997	1.092	480,000	–	–	<b>480,000</b>
	25.11.1998	0.105	2,200,000	–	–	<b>2,200,000</b>
	20.12.1999	0.128	1,500,000	–	–	<b>1,500,000</b>
	14.3.2000	0.330	1,200,000	–	–	<b>1,200,000</b>
Mr. Ho Chit Hung, Thomas*	30.4.1997	0.792	2,100,000	–	(2,100,000)	–
Mr. Liu Ren Shung*	14.3.2000	0.330	6,200,000	–	–	<b>6,200,000</b>
Total directors			<u>120,985,000</u>	<u>–</u>	<u>(88,445,000)</u>	<u><b>32,540,000</b></u>
Category 2: Employees						
Other employees	30.4.1997	0.792	1,860,000	–	(96,000)	<b>1,764,000</b>
Other employees	2.5.1997	0.825	480,000	–	–	<b>480,000</b>
Other employees	19.6.1997	1.092	600,000	–	(96,000)	<b>504,000</b>
Other employees	2.2.1998	0.100	751,000	–	(140,000)	<b>611,000</b>
Other employees	25.11.1998	0.105	2,200,000	(1,760,000)	–	<b>440,000</b>
Other employees	17.11.1999	0.117	370,000	–	(80,000)	<b>290,000</b>
Other employees	20.12.1999	0.128	3,900,000	–	–	<b>3,900,000</b>
Other employees	14.3.2000	0.330	3,140,000	–	(500,000)	<b>2,640,000</b>
Total employees			<u>13,301,000</u>	<u>(1,760,000)</u>	<u>(912,000)</u>	<u><b>10,629,000</b></u>
Total all categories			<u>134,286,000</u>	<u>(1,760,000)</u>	<u>(89,357,000)</u>	<u><b>43,169,000</b></u>

\* The directors resigned/vacated during the year/subsequent to the balance sheet date.

Consideration of HK\$1 was received from each of the option holders for each lot at the time when the options were accepted.

# Directors' Report

## SHARE OPTIONS (Cont'd)

Details of specific categories of options are as follows:

<b>Date of grant</b>	<b>Exercisable period</b>	<b>Exercise price</b> <i>HK\$</i>	<b>Number of shares to be issued upon exercise of the share options</b>
30th April, 1997	30th April, 1997 to 29th April, 2007	0.792	11,844,000
2nd May, 1997	2nd May, 1997 to 1st May, 2007	0.825	480,000
19th June, 1997	19th June, 1997 to 18th June, 2007	1.092	1,944,000
2nd February, 1998	2nd February, 1998 to 1st February, 2008	0.100	611,000
25th November, 1998	25th November, 1998 to 24th November, 2008	0.105	5,280,000
17th November, 1999	17th November, 1999 to 16th November, 2009	0.117	290,000
20th December, 1999	20th December, 1999 to 19th December, 2009	0.128	8,280,000
14th March, 2000	14th March, 2000 to 13th March, 2010	0.330	12,440,000
26th August, 2000	26th August, 2000 to 25th August, 2010	0.191	2,000,000
			43,169,000

In the five years from the date of grant, the exercise of the option is restricted to a cumulative total of 20% of the entitlement of the option in each year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company or had exercised any such right during the year.



### CONNECTED TRANSACTIONS

- (a) During the year, Master Super Development Limited ("Master Super"), a 60% owned subsidiary, obtained shareholders' loans from the Group and two shareholder companies controlled by Mr. Wong Chun Hong ("Mr. Wong"), an ex-director of the Company. At 31st March, 2002, the outstanding balance of the loans from the Group and the shareholder companies amounting to approximately HK\$142,616,000 and HK\$95,077,000 respectively.

The loans are unsecured, interest free, repayable on demand and made on a pro rata basis with reference to the equity holding in Master Super.

In addition, Mr. Wong and the Company have given guarantees amounting to HK\$194,000,000 in favour of a bank to secure banking facilities granted to Master Super. The guarantees were given on a pro rata basis with reference to the equity holding in Master Super without consideration.

- (b) In April 1999, the Group entered into a lease agreement with Mr. Lee Sai Kai, David ("Mr. Lee"), an ex-director of the Company, under which an investment property of the Group was leased to Mr. Lee for a period of three years commencing 1st August, 1999 for a monthly rental of HK\$17,000 exclusive of rates and management fee. The rental income received by the Group during the year amounting to HK\$204,000.

In November 2001, the Group entered into a new lease agreement with Mr. Lee for the lease of the same premises for a period of two years commencing 1st August, 2002 for a monthly rent of HK\$30,000 exclusive of rates and management fee.

- (c) In May 2000, the Group entered into a lease agreement with a related company, 祥泰信息諮詢(深圳)有限公司, a company in which Mr. Wong has a beneficial interest. Under the lease agreement, an investment property of the Group situated outside Hong Kong was leased to the related company for a period of two years commencing 15th December, 2000 for a monthly rental of approximately HK\$4,000. On 10th July, 2001, the lease agreement was terminated by mutual consent of both parties. The rental income received by the Group during the year amounting to HK\$15,000.

- (d) During the year, Cheung Tai Hong Holdings (Property) Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Master Super to purchase a commercial unit in Talon Centre, Sheung Wan at a consideration of HK\$9,500,000. During the year, a deposit of HK\$950,000 has been paid to Master Super.





# Directors' Report

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section headed "Connected Transactions" above, no other contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDER

At 31st March, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following persons had an interest of 10% or more of the issued share capital of the Company:

Name of person	Number of shares held	Percentage of issued share capital
Lunghin	552,063,921	28.26%

Mr. Tse Cho Tseung is interested in the 552,063,921 shares in the Company held by Lunghin by virtue of his 100% beneficial interest in the issued share capital of Lunghin. Details of the interest are disclosed under the section headed "Directors' Interests in Securities" above.

Pursuant to a loan agreement and a share mortgage agreement, both dated 29th October, 2001, entered into between Lunghin as the borrower and Loyal Concept Limited ("Loyal Concept") as the lender, Loyal Concept agreed to grant a loan facility to Lunghin subject to, inter alia, Lunghin agreed to pledge 448,500,000 shares of HK\$0.10 each in the capital of the Company, to secure the loan facility. Loyal Concept is a wholly-owned subsidiary of Hanny Magentics (B.V.I.) Limited which in turn is a wholly-owned subsidiary of Hanny Holdings Limited.

Other than as disclosed above, the Company has not been notified of any other interest representing 10% or more of the issued share capital of the Company as at 31st March, 2002.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2002, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 90% of the Group's total turnover and the turnover attributable to the Group's largest customer was approximately 44% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 77% of the Group's total purchases and the purchase attributable to the Group's largest supplier was approximately 36% of the Group's total purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in any of the Group's five largest customers or suppliers.



# Directors' Report

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 31st March, 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

## **POST BALANCE SHEET EVENT**

Details of the significant post balance sheet event are set out in note 41 to the financial statements.

## **AUDITORS**

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**TSE CHO TSEUNG**

*Chairman*

Hong Kong, 19th July, 2002